RBC U.S. Monthly Income Fund

Commentary as at December 31, 2022

Canadian and U.S. stocks tumbled in 2022, fueled by the highest inflation in decades and the concurrent rise in interest rates. Stocks came under pressure after the U.S. Federal Reserve and the Bank of Canada responded to inflation – the fastest in 40 years – with a vow to stamp it out with successive interest-rate hikes. Interest-rate-sensitive stocks were hurt most, resulting in a sell-off in the Information Technology sector in both markets. Meanwhile, a surge in energy prices helped cushion market returns in Canada, which outperformed most other major markets during the year.

U.S. fixed income generated significant declines during 2022, as bond yields rose across the board amid the highest U.S. inflation in four decades. U.S. Treasury yields climbed materially during the year to reach levels not seen in over a decade. Toward the end of the year, inflation pressures showed signs of receding, with the rise in consumer prices falling to 7.1% from a high of 9.1%. Inflation, however, remained far above the Fed's 2% target, prompting the central bank to warn investors that interest rates would continue to rise until policymakers are comfortable that inflation is under control.

In the equity portion of the Fund, relative exposure to Meta Platforms, Tesla and ConocoPhillips had the most positive impact on the Fund's returns, while exposure to Ford Motor, Berkshire Hathaway and Walt Disney was negative for performance.

The sectors that had the most positive impact on the Fund's returns were Energy, Health Care and Communication Services, while exposure to Industrials, Real Estate and Financials had a negative impact.

The Fund had overweight positions in AbbVie, CVS Health and Elevance Health and underweight positions in Amazon.com, Tesla and Alphabet.

At the sector level, the Fund had overweight exposure to Health Care, Energy and Consumer Staples and underweight exposure to Consumer Discretionary, Financials and Communication Services.

Uncertainty is elevated and there is a wide range of potential outcomes for the economy and financial markets. The good news for investors is that stocks are now much more reasonably priced than they were at the start of the year. While valuation risk has diminished and long-term return potential has increased, stock prices could still fall in the event that we enter a recession and earnings decline. In the current environment, stock gains could be limited in the near term absent evidence that the economy is cooling adequately to bring down inflation while avoiding a recession.

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